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## **The Impact of Reducing PIP Coverage in Michigan**

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### **Purpose**

- To analyze the potential impact of limiting the amount of coverage required for personal protection insurance (PIP)
  - Benefits associated with PIP
  - Cost burden associated with catastrophic motor vehicle-related injuries, specifically traumatic brain injury
  - Who pays and how might the cost burden shift to the state and other payers

## Conclusions

- No compelling reason to reduce the coverage requirement for personal protection insurance under Michigan's no-fault system at a time when the health care policy environment is changing so dramatically
- Current coverage enables victims of motor vehicle accidents to immediately obtain reasonably necessary products, services, and accommodations they need for maximum recovery
- Without adequate PIP, costs will be shifted to the victims and their families, publicly-funded programs, and health care providers in the form of uncompensated care
- Cost burden on the Michigan Medicaid program could easily exceed \$30 million for long-term care in one year alone

## Complexity and Uncertainties

- Personal protection insurance is one piece of a very complex automobile insurance system
  - Interactions among multiple payers, providers, and beneficiaries
- PIP intersects with larger health care delivery and insurance system
  - Automobile insurance premiums for PIP affected by type and level of coverage through health insurance
- Health care delivery and insurance system is undergoing monumental change
  - The effect on future rate classifications is unknown

## Reasonably Necessary Products, Services, and Accommodations

- Enables victims to immediately obtain health care and services they need for maximum recovery
  - Directs resources to necessary care and treatment through first-party insurance
  - Provides comprehensive benefits for minor to catastrophic injuries and lifetime payment
  - Covers all "reasonable charges incurred"
  - Burden of proof rests with the injured individual and the provider

## Risk Protection

- All covered individuals are protected against the risk of catastrophic economic loss
  - One out of 17 claims exceed \$50,000 and one out of 200 exceed \$400,000 \*
  - Reducing coverage levels would transfer the risk back to the individual

\*Source: Michael J. Miller, *Private Passenger Automobile Analysis of No-Fault Legislative Reforms in Michigan*, conducted on behalf of the Insurance Institute of Michigan (Lansing, Mich.: EPIC Consulting LLC, June 2007).

## Care & Treatment

- Research has demonstrated the benefits of intensive rehabilitation and extended treatment for catastrophic injuries such as traumatic brain injuries
- Costs associated with catastrophic motor vehicle-related injuries, such as TBIs, are high due to the nature of the injuries and the level and duration of care required for maximum recovery
- Care and treatment during the first year can cost hundreds of thousands and more than a million dollars on average over a person's lifetime

## Estimated Medical Expenses for Persons with a TBI

Type of care	Average Yearly Expenses		Estimated Lifetime Costs by Age at Injury	
	First year	Each subsequent year	25 years of age	50 years of age
Acute care	\$124,211	—	—	—
Inpatient rehabilitation	44,688	—	—	—
Follow-up care	40,000	\$26,871	—	—
<b>Total costs</b>	<b>\$208,899</b>	<b>\$26,871</b>	<b>\$1,348,229 (m)</b> <b>\$1,474,523 (f)</b>	<b>\$676,454 (m)</b> <b>\$802,748 (f)</b>

SOURCE: Prepared by Public Sector Consultants Inc. using estimates from the National Highway Traffic Safety Administration and Craig Hospital. Estimated lifetime costs have not been adjusted for inflation.

\*NOTE: m = male, f = female. The expense estimates provided above for follow-up care of individuals with TBI include the cost of care "received" during the first year after inpatient rehabilitation. The Craig Hospital study authors note "... with changing rules and policies of insurance companies, patients don't always get all of the services they may need, especially once they have been discharged from the rehabilitation hospital." The estimates for care beyond the first year are for "direct medical cost" and do not appear to include the costs of supervision in a long-term care setting.

## Michigan Catastrophic Claims Association Data

- From 1978 through June 2010, MCCA reimbursed 11,291 initial claims for a total of \$8,027,586,000  
— an average of \$710,972 per claim
- Auto insurance companies covered \$250,000 to \$450,000 before the claim reached the MCCA, bringing the *average* claim to about \$1 million
- This cost is on top of expenses covered by other payers

## Who Pays Now?

- The costs associated with motor-vehicle related injuries are borne directly by the population at risk—those who own and operate automobiles—in the form of insurance premiums for protection against such losses.
- For this protection, Michigan drivers spend only \$23 more per year than the national average for liability coverage.

## Average Annual Automobile Expenditures

	Liability	Collision	Comprehensive	Average Expenditure
Michigan	\$494	\$387	\$152	\$907
National average	\$471	\$298	\$134	\$789
<b>Difference</b>	<b>\$23 (5%)</b>	<b>\$89 (30%)</b>	<b>\$18 (13%)</b>	<b>\$118 (15%)</b>

SOURCE: Insurance Information Institute, *Auto Insurance, Average Expenditures for Auto Insurance by State, 1999-2008*

## Shifting the Cost Burden

- Without adequate personal protection insurance, costs associated with catastrophic motor vehicle-related injuries will be shifted to other payers
  - Victims and their families
  - Publicly-funded programs
  - Uncompensated care

## Cost to Victims and Families

- People are unlikely to purchase necessary risk protection if they are required to “opt in.”
- Following repeal of Colorado's no-fault legislation, more than half of the policyholders who chose to voluntarily purchase personal protection insurance purchased coverage of \$5,000 or less\* —which would not even cover the average cost of one day in a hospital.

\*Source: Insurance Research Council, *Impact of Colorado No-Fault Insurance Repeal Documented in New IRC Report*, March 7, 2008.

## Cost to Victims and Families

- Without adequate personal protection insurance, the cost burden is devastating for victims and their families.

*When treatment is delayed or denied altogether, individuals with brain injury cannot return to work or school. Often, they lose their jobs, their insurance, and their homes. The burden of care falls to families until they become destitute and then shifts to welfare systems.*

*Brain Injury Association of America*

## Cost to Medicaid

- Uncertainties regarding future coverage under private health plans and Medicaid make it impossible to accurately predict the future cost burden for the Michigan Medicaid program if changes are made now in requirements for PIP.
- The following scenario suggests the impact could easily exceed \$30 million for long-term care in one year alone.

## Medicaid Cost Scenario

- Each year over 500 people suffer a motor vehicle-related TBI that requires long-term care.\*
- In the Medicaid program in 2009, the cost of care per person in a nursing facility averaged \$167 per day or \$60,955 per year.
- Multiplied by 500, the total equals \$30,477,500 in the first year alone—compounded each year thereafter as another 500 people are injured

\*Source: Analysis of the discharge disposition of auto-related hospitalized TBI cases from 2003 to 2008 in Michigan, provided by Cheribeth Tan-Schriner, PhD, Senior Research Scientist, Michigan Public Health Institute.



## Colorado Uncompensated Care

- Auto-related injury patients made up 2.9% of all patients coded as self-pay and charity care in 2002 and 3.4% in 2006.
- Non-reimbursed charges were 18% of motor vehicle accident-related emergency transport charges in 2002 and rose to 37% in 2006
- Reimbursement rate for inpatient care for auto-related injuries was 60% of charges in 2002 and only 36% of charges in 2006

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